

Analysis of financial statistics: October-December 1970

The analysis deals mainly with the flow of funds between the various sectors in the last quarter of 1970, the latest period for which a full set of statistics is available, and in 1970 as a whole. There is comment on the first quarter of this year where statistics are available, in particular for the banking sector, money stock, domestic credit and central government financing. The analysis of quarterly flows is based throughout on seasonally adjusted figures. Unadjusted quarterly figures are given in Table J and yearly figures in Table K. Notes on sources and methods are on page 186.

Summary

In 1970 as in 1969 the dominant features were the financial surplus of the public sector and the deficit of industrial and commercial companies; both grew substantially. The balance of payments surplus on current account was also much larger than in 1969. Companies again benefited from capital inflows, mostly short-term, including greatly increased euro-dollar borrowing through banks for use at home. The company deficit appears to have reached its peak about the middle of the year, but the pressures of the tax-gathering season in the first quarter of 1971 may have been eased a little by delays caused by the postal strike; and for the third year running, there was a large inflow from overseas during the revenue quarter. Company finances may be less difficult in the period ahead, for the public sector has moved back into financial deficit and is expected to remain in deficit in 1971/72.

Meanwhile the rapid increase in personal incomes and the sluggish growth of consumption have resulted in an even larger personal sector surplus, much of it placed for investment with financial institutions. These institutions made relatively little directly available to companies.

In 1970/71, the money supply rose throughout the year, but domestic credit changed course in the March quarter and contracted under the impact of sales of gilt-edged stocks to the public.

Background

Between 1969 and 1970 the volume of the gross domestic product grew by only a little over 1½%. During 1970 there was some growth between the first and second quarters (the first was very slack) and again between the third and fourth quarters. It is difficult to interpret the latter movement, because exports of goods and services and stockbuilding were mainly responsible for the recorded change in demand – and exports were distorted by the dock strike in the third and fourth quarters while the stockbuilding statistics were affected by the postal strike, which delayed returns. But it is clear that there was no consumption-led boom deriving from increases in personal incomes. Moreover, first indications suggest that demand may have fallen in the first

quarter of 1971 – personal consumption certainly remained subdued.

Measured at current prices, movements have been much larger; G.D.P. at factor cost grew by nearly 10% between 1969 and 1970, with particularly steep rises between the quarters mentioned above. Changes in the income and expenditure of the main sectors at current prices are shown in Table A. Wage awards accelerated strongly and most of the increase in incomes during 1970 was in income from employment; however, income from rent and self-employment also grew considerably. The gross trading surpluses of enterprises, both public and private, suffered: the trading

Table A
Income and expenditure

£ millions

Seasonally adjusted

	Income from employment and trading ^{ab}	Transfer incomes etc. ^b	less Consumption ^c	less Current transfer payments	equals Saving	less Gross domestic capital formation ^{ad}	less Capital transfers (net payments-)	equals Financial surplus/deficit ^e
Personal sector								
1969 1st qtr.	6,592	2,863	-6,948	-1,821	686	- 293	-135	258
2nd qtr.	6,709	2,854	-7,133	-1,848	582	- 284	- 84	214
3rd qtr.	6,822	2,889	-7,238	-1,899	574	- 305	- 84	185
4th qtr.	7,018	2,957	-7,364	-1,979	632	- 316	- 84	232
1970 1st qtr.	7,204	2,935	-7,445	-2,047	647	- 284	- 98	265
2nd qtr.	7,486	3,102	-7,676	-2,172	740	- 323	- 88	329
3rd qtr.	7,763	3,083	-7,933	-2,208	705	- 347	- 85	273
4th qtr.	7,973	3,183	-8,070	-2,299	787	- 367	- 85	335
Company sector								
1969 1st qtr.	1,197	943		-1,358	782	-1,027	118	-127
2nd qtr.	1,208	940		-1,407	741	-1,087	112	-234
3rd qtr.	1,278	981		-1,434	825	-1,050	120	-105
4th qtr.	1,265	991		-1,445	811	-1,138	182	-145
1970 1st qtr.	1,232	1,024		-1,489	767	-1,072	99	-206
2nd qtr.	1,216	1,051		-1,583	684	-1,235	94	-457
3rd qtr.	1,261	1,039		-1,532	768	-1,172	104	-300
4th qtr.	1,327	1,102		-1,567	862	-1,247	126	-259
Public sector								
1969 1st qtr.	406	4,195	-1,980	-1,730	891	- 914	17	- 6
2nd qtr.	383	4,368	-1,998	-1,709	1,044	- 901	- 28	115
3rd qtr.	402	4,565	-2,062	-1,758	1,147	- 946	- 36	165
4th qtr.	384	4,621	-2,098	-1,808	1,099	- 967	- 98	34
1970 1st qtr.	390	4,747	-2,116	-1,820	1,201	- 951	- 1	249
2nd qtr.	401	4,991	-2,246	-1,864	1,282	-1,018	- 6	258
3rd qtr.	373	5,107	-2,344	-1,851	1,285	-1,037	- 19	229
4th qtr.	357	5,149	-2,350	-1,941	1,215	-1,091	- 41	83
Overseas sector^f								
1969 1st qtr.								- 10
2nd qtr.								- 99
3rd qtr.								-166
4th qtr.								-162
1970 1st qtr.								-215
2nd qtr.								-144
3rd qtr.								- 76
4th qtr.								-196

a Before providing for depreciation and stock appreciation.

b Rent and income from self-employment are included with transfer incomes and not with income from trading.

c Other than depreciation.

d Including stocks.

e The sum of the sector surpluses and deficits corresponds to the residual error in the national income accounts.

f An overseas sector deficit corresponds to a balance of payments surplus on current account.

profits of private sector companies grew by less than 2% year on year, whilst those of public bodies actually fell. Clearly, corporations generally were unable to keep their sales revenue in line with their wage and salary bills.

Saving by companies (including financial institutions) in 1970 was lower than in 1969, and it was only in the fourth quarter that the figure exceeded that of a year earlier. Capital formation, including a substantial investment in stocks, cost much more than in 1969, and the financial deficit of the company sector doubled to over £1,200 million – an unprecedented amount.

The current surplus (saving) of the public sector continued to be very large throughout 1970, although it fell slightly in the fourth quarter when public expenditure rose a little and customs and excise receipts declined. Income tax revenue grew as wages and salaries rose.

Personal saving increased in the fourth quarter and the fall in revenue from taxes on expenditure may in part have reflected growing reluctance by persons to spend the whole of their increasing incomes. Although more was spent on buying houses, the personal sector's financial surplus was larger than in the third quarter. Altogether in 1970 the surplus was as large as £1,200 million, over £300 million more than in 1969.

Overseas sector

The underlying course of the overseas sector's financial deficit in 1970 was obscured by the dock strike in July, and will have tended to decline more evenly than appears from Table B. The deficit corresponds to a U.K. balance of payments surplus on current account. The strike depressed this surplus for the third quarter and exaggerated it for the fourth. For the two quarters taken together there was a small U.K. deficit on visible trade and some decline in invisible receipts, and the current surplus was thus smaller than in the first half of the year.

Among financial transactions, there was a marked swing during the year in the pattern of private investment flows, from a favourable U.K. balance of £85 million in the first half of the year to an adverse balance of £155 million in the second half. Quite a lot of this change reflected temporary credit transactions across intra-company accounts; early in the year U.K. companies were bringing money in to finance their tax payments. However, well over £150 million of U.K. investment overseas was financed by euro-dollar borrowing during the year, which more than offset the net cost to the balance of payments of private investment flows.

Excluding the funds used to finance investment overseas, the banks' foreign currency transactions brought in over £300 million during the year, the bulk of which was borrowed by companies and converted into sterling for domestic use. In the year as a whole the total currency inflow was about twice the current surplus, and it enabled the authorities to repay comparable amounts of debt to overseas monetary authorities. The inflow was most marked in the first quarter, when it eased company liquidity while tax payments were at their heaviest, and again in the fourth

Table B**Overseas sector^a**

£ millions

Seasonally adjusted

Claims on U.K.: increase +/decrease -

Liabilities to U.K.: increase -/decrease +

	1969				1970				1971
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial surplus +/deficit -	- 10	- 99	- 166	- 162	- 215	- 144	- 76	- 196	
Transactions with the U.K. private sector									
Investment flows:									
Capital issues in the United Kingdom	- 4	- 10	+ 22	—	- 4	+ 2	+ 12	+ 2	+ 7
Other transactions in company and overseas securities	- 17	+ 63	+ 62	+ 18	+ 5	+ 12	- 53	- 41	
Miscellaneous private investment	+ 26	- 50	- 38	- 46	+ 33	+ 35	- 39	- 34	
Other transactions:									
Deposits with U.K. banks /less claims of U.K. banks ^b	- 114	- 47	- 95	+ 120	+ 195	+ 162	+ 83 ^c	+ 359	+ 104
Other identified	+ 31	- 45	+ 27	- 22	+ 106	- 65	+ 75	+ 4	
Balancing item	+ 152	- 18	- 140	+ 327	+ 233	- 144	- 91	+ 159	
	+ 74	- 107	- 162	+ 397	+ 568	+ 2	- 13	+ 449	
Transactions with the U.K. public sector									
Lending etc. ^d	—	+ 12	- 30	- 28	- 45	- 61	- 56	- 99	
External finance: ^e									
Central government	- 83	- 32	- 37	- 535	- 755	- 86	- 4 ^c	- 525	- 675
Local authorities	- 7	+ 1	+ 35	—	+ 10	- 24	- 4	- 20	+ 7
Public corporations	+ 6	+ 27	+ 28	+ 4	+ 7	+ 25	+ 1	- 1	+ 52
	- 84	+ 8	- 4	- 559	- 783	- 146	- 63	- 645	

a It has not been possible to include in this table the balance of payments estimates for the first quarter of 1971, and revisions to previous quarters, which were released in June and appear in the annex, Table 19.

b Other than purchases of securities.

c These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

d Those overseas transactions of the public sector which are not included in D.C.E.

e Those overseas transactions of the public sector which are included in D.C.E.

quarter, when companies borrowed large amounts of euro-dollars through their banks.

Some information is available for the first quarter of 1971. The trade figures suggest that the current surplus was smaller than for some time: as described in the Commentary, the figures were adversely affected by the postal strike, but deliveries of Boeing 747 aircraft were responsible for some contraction. However, there was again a very large inflow of funds - bigger even than in the first quarter of 1970 - in a period when U.K. interest rates, before allowing for the cost of forward cover, were higher than international rates. As in the same period last year, overseas funds also flowed in to relieve liquidity shortages in the revenue season. Much of this will have been effected through changes in the pattern of trade credit and in the timing of commercial payments, and also through an influx across company accounts; such inflows mostly show as a large positive balancing item in the balance of payments accounts. Short-term borrowing of euro-dollars through the banks for domestic use was restricted early in January and the inflow on this account was much smaller than in the previous quarter.

There was also investment in gilt-edged stocks and other U.K. securities and some inflow in sterling to the banks. The authorities again repaid large amounts of external indebtedness.

Public sector

The financial surplus reached a peak in the early quarters of 1970 but began to fall away markedly in the second half of the year, giving place to a deficit in the first quarter of 1971. However, tax payments totalling some £250 million appear to have been delayed by the postal strike; otherwise, the sector would have had a surplus of around £150 million in the first quarter. The forecast for 1971/72 published in the Budget Report shows a deficit of some £380 million, or over £600 million allowing for the delayed tax inflow. This public sector deficit should help to relieve the financial pressures on companies.

Table C
Public sector

£ millions

Seasonally adjusted

	1969				1970				1971
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving (current surplus)	+ 891	+ 1,044	+ 1,147	+ 1,099	+ 1,201	+ 1,282	+ 1,285	+ 1,215	+ 995
Capital transfers (net)	+ 17	- 28	- 36	- 98	- 1	- 6	- 19	- 41	- 5
Capital expenditure	- 914	- 901	- 946	- 967	- 951	- 1,018	- 1,037	- 1,091	- 1,010
Financial surplus + /deficit -	- 6	+ 115	+ 165	+ 34	+ 249	+ 258	+ 229	+ 83	- 20
Lending and other transactions (increase in assets +) ^a	+ 107	+ 49	+ 64	+ 134	+ 114	+ 39	+ 104	+ 186	
Import deposits (increase -)	- 268	- 217	+ 7	+ 10	+ 13	+ 41	+ 80	+ 123	+ 173
Borrowing requirement (increase -)	+ 273	+ 201	+ 70	- 80	+ 249	- 17	+ 109	- 342	- 544
Comprising:									
Central government:									
External finance	+ 83	+ 32	+ 37	+ 535	+ 755	+ 86	+ 4 ^b	+ 525	+ 675
Notes and coin with the public	- 22	- 2	- 10	- 107	- 44	- 34	- 107	- 73	- 132
Bank borrowing	+ 164	+ 326	+ 293	- 142	- 28	+ 49	+ 14 ^b	- 394	-
Other domestic borrowing	+ 207	- 2	- 104	- 181	- 345	+ 141	+ 224	- 95	- 861
	+ 432	+ 354	+ 216	+ 105	+ 338	+ 242	+ 135	- 37	- 318
Local authorities:									
External finance	+ 7	- 1	- 35	-	- 10	+ 24	+ 4	+ 20	- 7
Bank borrowing	- 119	- 100	+ 71	- 172	- 145	- 98	- 89	- 151	- 229
Other domestic borrowing	- 68	- 24	- 122	- 32	+ 52	- 94	+ 28	- 77	- 9
	- 180	- 125	- 86	- 204	- 103	- 168	- 57	- 208	- 245
Public corporations:									
External finance	- 6	- 27	- 28	- 4	- 7	- 25	- 1	+ 1	- 52
Domestic borrowing	+ 14	+ 8	- 30	+ 36	- 1	- 69	+ 60	- 88	+ 23
	+ 8	- 19	- 58	+ 32	- 8	- 94	+ 59	- 87	- 29
Other ^c	+ 13	- 9	- 2	- 13	+ 22	+ 3	- 28	- 10	+ 48
Identified financial transactions	+ 112	+ 33	+ 141	+ 64	+ 376	+ 63	+ 293	- 33	
Unidentified	- 118	+ 82	+ 24	- 30	- 127	+ 195	- 64	+ 116	

^a Consisting principally of lending to the overseas and private sectors (including refinancing of export credits, and public corporations' identified trade credit) and changes in bank deposits.

^b These items are affected by a change in the method of accounting; see additional notes to Table 5 of the annex.

^c Comprises Northern Ireland government borrowing and deductions for intra-sector debt transactions.

During 1970 the financial surplus was increasingly absorbed by the repayment of import deposits and by Issue Department refinancing of export and shipbuilding paper. Net lending to the private and overseas sectors also rose, and by the fourth quarter the public sector had a large borrowing requirement, for the first time since 1968. As a result of this borrowing requirement, the sector was in balance over 1970 as a whole, whereas in 1969 it had repaid approaching £500 million of outstanding debt. The central government's contribution to the borrowing requirement showed most change during the year, with a reduction of £450 million in the amount of debt repaid, but the rest of the public sector contributed to this reduction: in particular, local authorities borrowed 30% more from the central government in 1970 than from other sectors – a greater margin than for some years.

The ability of the central government to repay debt declined over the year and, in the changing circumstances, the nature of its financial transactions altered. In the first quarter of 1970 the Government used both its own surplus and nearly as much borrowed from the general public to meet the sterling cost of the large exchange inflow. The surplus of the middle quarters was used to finance repurchases of debt from the general public. When the large inflow of funds was resumed in the fourth quarter – external transactions cost £525 million – the central government borrowed heavily from banks to help finance it; this borrowing totalled £395 million, principally in the form of Treasury bills and of government debt acquired by the Bank of England. Sales of debt to the public were relatively modest, but included £45 million of national savings – an improvement which principally reflected the success of the decimal issue of savings certificates in October.

Because of falling trade surpluses, public corporations borrowed £100 million more in 1970 than in 1969; £90 million of the additional borrowing was from banks in the fourth quarter, but the corporations obtained £30 million less from overseas. Local authorities borrowed much more from the central government, and £60 million less outside the public sector, than in 1969.

In the first quarter of 1971, revenue receipts were held up by the postal strike, as already mentioned, and the central government increased its domestic borrowing considerably in order to finance both this shortfall and the sterling cost of the further inflow of funds from overseas. The private sector bought a large amount of gilt-edged stocks and national savings securities. In Table C, the figures of the public sector deficit and of financial transactions by local authorities and public corporations in the first quarter are provisional, and are partly based on estimates for 1970/71 used in the *Financial Statement and Budget Report*.

Personal sector

The personal sector's financial surplus was greater in each quarter of 1970 than in any quarter of 1969, for the growth of its saving easily outpaced the increased cost of its capital expenditure. Personal disposable income rose quarter

by quarter through 1970, although at a diminishing pace. The value of personal consumption followed a broadly similar pattern, but saving was higher at the end of the year both in absolute terms and as a percentage of disposable income. In fact the personal savings ratio has generally been rising since the second quarter of 1969, though it has not yet regained the peak registered in the first quarter of that year.

Table D
Personal sector

£ millions

Seasonally adjusted

	1969				1970				1971
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving	+ 686	+ 582	+ 574	+ 632	+ 647	+ 740	+ 705	+ 787	
Capital transfers (net)	- 135	- 84	- 84	- 84	- 98	- 88	- 85	- 85	
Capital expenditure	- 293	- 284	- 305	- 316	- 284	- 323	- 347	- 367	
Financial surplus	+ 258	+ 214	+ 185	+ 232	+ 265	+ 329	+ 273	+ 335	
Borrowing (-)									
For house purchase	- 225	- 207	- 222	- 192	- 223	- 273	- 333	- 340	
Bank borrowing ^a	+ 93	+ 20	+ 55	- 91	+ 42	- 96	- 27	+ 22	- 20
Hire purchase debt	+ 9	+ 12	+ 17	- 13	- 3	- 7	- 3	- 36	
Other	- 19	- 45	- 15	- 14	+ 5	- 48	- 14	+ 40	
	- 142	- 220	- 165	- 310	- 179	- 424	- 377	- 314	
Acquisition of financial assets (+)									
Life assurance and pension funds	+ 380	+ 411	+ 361	+ 383	+ 400	+ 420	+ 410	+ 445	
Government stocks	- 161	+ 30	+ 95	+ 112	+ 167	- 46	- 272	- 55	
Company and overseas securities	- 182	- 72	- 147	- 186	- 256	- 225	- 229	- 240	
Unit trust units	+ 91	+ 42	+ 29	+ 24	+ 31	+ 28	+ 19	+ 11	+ 10
Bank deposits, notes and coin	+ 137	+ 24	+ 42	+ 178	+ 84	+ 308	+ 317	+ 228	+ 318
Building society shares and deposits	+ 223	+ 238	+ 208	+ 226	+ 291	+ 335	+ 418	+ 418	+ 412
National savings	+ 4	- 103	- 50	- 75	- 2	- 76	- 10	+ 45	+ 91
Local authority debt	+ 20	+ 26	+ 138	+ 36	+ 11	- 16	- 28	- 27	
Other	+ 31	+ 25	- 10	+ 47	+ 15	+ 56	+ 33	+ 62	
	+ 543	+ 621	+ 666	+ 745	+ 741	+ 784	+ 658	+ 887	
Identified financial transactions	+ 401	+ 401	+ 501	+ 435	+ 562	+ 360	+ 281	+ 573	
<i>Unidentified</i>	- 143	- 187	- 316	- 203	- 297	- 31	- 8	- 238	

^a Other than for house purchase.

However, the saving figures are residuals and are subject to considerable error. Moreover, the disposable surplus is affected by unidentified changes in the pattern of trade credit between persons and companies. Because of the pressure on company finances, it is very likely that the pattern has changed. By contrast with the savings ratio, the ratio of identified net acquisitions of financial and capital assets (including housing) to personal disposable income did not show any marked trend in 1969 and 1970, though it dipped in the two middle quarters of 1970. In

those two quarters trade credit may have been harder to get and, unusually, less physical and financial assets were acquired than the amount saved.

£ millions: seasonally adjusted

	1969		1970			
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
Personal disposable income	31,157	8,092	8,416	8,638	8,857	34,003
Saving	2,474	647	740	705	787	2,879
%	7.9	8.0	8.8	8.2	8.9	8.5
Net purchases of physical and financial assets	2,936	846	683	628	940	3,097
%	9.4	10.4	8.1	7.3	10.6	9.1

For the most part, the ways in which persons have disposed of their surpluses have not varied very much recently. As can be seen from Table D, however, investment in gilt-edged stocks has been volatile; disposals in the fourth quarter were much smaller than in the third, when the total included the redemption of 3% Savings Bonds 1960/70. Otherwise, persons' investment behaviour in the fourth quarter followed generally the same pattern as in the third. This was especially true of the larger items, which included substantial flows into life assurance, pension funds and building societies and another increase in bank deposits (if somewhat less than in the two preceding quarters), partly balanced by sales of equities and debentures and by borrowing on mortgage. Among the smaller items, persons' investment in unit trust units was the smallest for five years; but they acquired more national savings than for an equally long period. They also incurred more net hire purchase debt than for several years, but repaid debt to the banks and other lenders.

In the first quarter this year personal saving and the sector surplus probably again rose strongly. As before, people put large sums into building societies and relatively large amounts into national savings, though they bought still fewer unit trust units. They appear also to have bought sizable amounts of gilt-edged stocks, and bank deposits again grew strongly. Borrowing from building societies was only slightly less than in the fourth quarter.

Industrial and commercial companies

In the past, industrial and commercial companies have usually been in financial surplus. In the current cycle, they fell into financial deficit in the second half of 1968. The deficit increased for nearly two years but the increase appears to have eased slightly in the second half of 1970. The total deficit for the year was nevertheless quite unparalleled and, at nearly £1,000 million, was over three times as big as in 1969. Wages and salaries rose faster than sales and prices; and the costs of capital formation grew. Companies had not only to meet this deficit but also needed to finance their trade and overseas investments. Some funds were provided by the unwinding of the import

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1969				1970				1971
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Domestic capital formation	+913	+949	+939	+1,027	+964	+1,108	+1,058	+1,101	
less Saving	-738	-709	-778	-734	-701	-621	-676	-764	
less Capital transfers (net)	-123	-120	-131	-197	-115	-112	-121	-144	
equals Financial deficit	+ 52	+120	+ 30	+ 96	+148	+ 375	+ 261	+ 193	
Trade investments, mergers etc.	+ 89	+ 67	+ 73	+ 54	+ 82	+ 58	+ 52	+ 79	
Investment abroad	+155	+135	+167	+ 188	+116	+ 146	+ 186	+ 163	
Import deposits	+243	+193	- 16	- 11	- 13	- 34	- 70	- 108	-156
Total requiring financing	+539	+515	+254	+ 327	+333	+ 545	+ 429	+ 327	
Capital issues at home and long-term borrowing abroad	-190	-172	- 77	- 79	- 22	- 53	- 48	- 104	
Overseas investment in U.K. companies	-158	- 74	- 87	- 105	-178	- 149	- 61	- 99	
Net import credit extended by overseas	- 30	- 41	- 2	- 36	+ 12	- 22	- 6	+ 4	
Net export credit extended to overseas	+ 28	+ 56	- 26	+ 65	- 20	+ 8	- 31	+ 56	
Bank borrowing	-255	- 4	-388	+ 20	-174	- 499	- 146	- 233	-176
Other borrowing	- 40	- 72	- 89	- 22	-104	- 16	- 136	- 116	
Bank deposits, notes and coin	-106	-199	+ 93	+ 57	-150	+ 279	- 81	+ 264	+165
Other liquid assets ^a	+ 10	- 10	- 37	- 22	+ 5	- 6	- 57	- 7	
Other items ^b	+ 10	- 41	- 4	- 16	- 10	- 17	- 37	+ 10	
<i>Unidentified</i>	+192	+ 42	+363	- 189	+308	- 70	+ 174	- 102	
Total financing	-539	-515	-254	- 327	-333	- 545	- 429	- 327	

^a Treasury bills, local authority temporary debt, tax reserve certificates and deposits with other financial institutions.

^b Long-term local authority debt, trade credit to public corporations and hire purchase lending.

deposits scheme, and repayments reached £110 million in the fourth quarter (leaving £155 million to be repaid in the first quarter of this year and £105 million in the second quarter). But companies still needed to find another £300-500 million each quarter.

They did not get much from capital issues, which brought in no more than £90 million in the relatively good fourth quarter and only £30 to £40 million in earlier quarters of the year, for the market was never very strong. (The amount raised in the first quarter of this year fell to about £70 million.) Issues were mainly in the form of loan capital.

One of the biggest sources of funds was the overseas sector, although this inflow was uneven as between one quarter and another, and slightly less over the whole year than in 1969. Overseas investment in U.K. companies was, as shown in Table E, much smaller in the second half of the year than in the first: there was probably little change in longer-term movements, but identified inflows across intra-company accounts diminished during the course of the year (though the total for the year as a whole was distinctly larger than in 1969). Identified flows of trade credit were also rather more favourable than in 1969;

companies obtained a net £60 million over the first nine months of the year, either by reducing the amount of export credit extended or by taking import credit, but these accruals were reversed by an increase in credit extended in the fourth quarter. Finally, a large provision will again have come from unidentified changes in credit transactions and the timing of commercial payments, although markedly less than in 1969: these net inflows are reflected in the positive balancing item in the balance of payments in the first and fourth quarters.

To judge from the pattern of unidentified transactions of persons, companies may have benefited by up to £300 million from a reduction of credit extended to the personal sector, achieved perhaps by quicker settlement of bills. But the analysis is weakened because the size of unidentified transactions reflects any errors in the figures of saving. If the shift in credit positions did happen, it appears to have been completed in the two middle quarters: there was no similar evidence in the fourth quarter figures.

Companies were still left to borrow large sums from banks and other financial institutions during the year. The banks provided much more than in 1969; in the second quarter in particular they lent very substantial amounts, and again in the fourth quarter, when much euro-dollar finance was provided for domestic use. This bank borrowing allowed companies to rebuild their bank deposits in those quarters.

In the first quarter of 1971 there was another large inflow of foreign funds, much of it through unidentified channels, and again it seems clear that companies financed much of their tax payments from this source. On the whole they seem to have got through the revenue season more comfortably than seemed likely a year ago (even allowing for the autumn reduction in corporation tax), though they would have had greater difficulty if they had not been able to postpone tax payments when assessments could not be agreed during the postal strike.

Financial institutions other than banks

Increases in personal incomes over the year brought more money to the financial institutions – nearly £700 million more in 1970 than in 1969. Altogether, the institutions received over £3,500 million, including as much as £950 million in the fourth quarter. As noted earlier, the increases went mainly to building societies and life assurance and pension funds; at the other end of the scale, sales of unit trust units and investment trust and other capital issues declined during 1970.

Building societies seem to provide the most favoured outlet for temporary personal saving, and they benefit more quickly than life assurance and pension funds from any acceleration in the growth of personal incomes. This was so in the first nine months of 1970; in the last quarter, the inflow to life assurance and pension funds rose strongly and the inflow to building societies levelled out.

During 1970 the institutions invested just over £700 million more in financial assets than in 1969. Identified expen-

diture on physical and financial assets fell short of the inflow by nearly £200 million, which is more than can be attributed to current transactions.

The institutions put much more into short-term assets, ordinary shares and loans for house purchase than in 1969, and a little more in gilt-edged stocks and longer-term local authority debt. On balance, they also extended hire purchase credit. Finally, they provided more direct loans to other sectors, largely industrial and commercial companies, but not as much as might have been expected from the pressures on company finances.

Table F
Financial institutions other than banks

£ millions

Seasonally adjusted

	1969				1970				1971
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Sources of funds (increase -)									
Life assurance and pension funds	-380	-411	-361	-383	-400	-420	-410	-445	
Building society shares and deposits	-223	-238	-208	-226	-291	-335	-418	-418	-412
Other deposits	-89	-7	-1	-64	-45	-49	-27	-55	
Capital issues	-47	-22	-15	-11	-21	-21	-9	-5	-32
Unit trust units	-91	-42	-29	-24	-31	-28	-19	-11	-10
Other (mainly bank borrowing)	+24	-2	-8	+9	-36	-10	-16	-18	
	-806	-722	-622	-699	-824	-863	-899	-952	
Increase in financial assets (+)									
Short-term assets ^a	+87	+44	+72	+24	+20	+259	+65	+65	
Government stocks	-29	+76	+98	+138	+178	-40	+104	+81	
Company and overseas securities:									
Ordinary	+169	+16	+37	+142	+165	+135	+154	+170	
Debentures	+134	+103	+18	+36	+29	+49	+36	+52	
Other	+2	-5	-12	-6	+2	+5	-6	-	
Loans for house purchase	+228	+211	+224	+202	+214	+260	+295	+303	
Long-term lending to local authorities	+25	+13	+4	+17	+7	+23	+23	+42	
Hire purchase claims	-5	-15	-3	+2	+1	+11	+11	+24	
Other lending	+74	+75	+41	-30	+37	+95	+15	+43	
	+685	+518	+479	+525	+653	+797	+697	+780	

^a Bank deposits, tax reserve certificates, Treasury bills and local authority temporary debt.

The attitude of the institutions to the gilt-edged market changed more than once in 1970; they were heavy buyers in the first quarter, when building societies took the lead, moderate sellers in the second, when life assurance and pension funds reduced their holdings, and finally buyers again in the second half of the year, though investment trusts and some pension funds went against the trend.

In 1970 as a whole the institutions bought more equities than in 1969 but rather fewer debentures. Their purchases of company securities in 1970 were greatest during the fourth quarter, when the investment trusts bought securities in place of earlier sales; the insurance companies and the pension funds, however, showed somewhat more caution in the fourth quarter than they had earlier in the year, when they had bought on a weak market.

During 1969, taking one quarter with another, building societies had obtained little more on deposit than they lent out on mortgage. Throughout 1970, additional deposits exceeded net lending, in all by nearly £400 million, and the liquidity position of the societies was greatly strengthened. In the first quarter of 1971, the increase in deposits exceeded net lending by well over another £100 million.

Banking sector, money stock and domestic credit

The development of the banks' domestic business in the fourth quarter of last year was described in the March *Bulletin*, on page 28; deposits rose steeply but lending rose twice as fast, and the shortfall was made good by a large net increase in overseas deposits.

In the first quarter of 1971, the banks' net business with their overseas customers was comparatively small and domestic deposits grew about as fast as domestic lending. Companies added almost as much to their deposits as they borrowed from the banks. Their borrowing was itself not unduly large, partly because of restrictions placed on foreign currency borrowing early in January, partly because they were getting finance direct from overseas, and to some extent because of a smaller demand for advances as a result of delays in tax payments caused by the postal strike. Among the other domestic sectors the banks again received funds, on balance, from persons, who continued to build up their bank deposits at much the same rate as in the preceding three quarters. The banks channelled these

Table G
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1969				1970				1971
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Lending to:									
Public sector	- 57	- 234	- 337	+ 277	+ 174	+ 121	+ 40 ^a	+ 632	+ 243
Company sector	+ 251	+ 14	+ 406	- 24	+ 224	+ 512	+ 141	+ 273	+ 189
Personal sector	- 98	- 20	- 50	+ 86	- 37	+ 101	+ 47	- 12	+ 30
Total domestic lending	+ 96	- 240	+ 19	+ 339	+ 361	+ 734	+ 228	+ 893	+ 462
Deposits by:									
Public sector	- 73	+ 50	- 22	- 22	- 72	+ 58	+ 32	- 62	- 61
Company sector	+ 23	+ 170	- 147	+ 3	+ 79	- 379	+ 87	- 176	- 120
Personal sector	- 126	- 23	- 37	- 122	- 62	- 291	- 264	- 205	- 252
Total domestic deposits	- 176	+ 197	- 206	- 141	- 55	- 612	- 145	- 443	- 433
Net lending to overseas ^b	+ 116	+ 63	+ 91	- 116	- 198	- 140	- 84 ^a	- 349	- 37
Non-deposit liabilities (net)	- 36	- 20	+ 96	- 82	- 108	+ 18	+ 1	- 101	+ 8

^a These items are affected by a change in accounting; see additional notes to Table 5 of the annex.

^b Claims on overseas net of overseas deposits.

inflows to the public sector - mainly as lending of temporary money to local authorities. The Treasury bills which they had purchased in the fourth quarter were now redeemed as other sectors were providing the Government with funds to pay the sterling cost of the foreign cur-

rency inflow. The public sector's repurchases of these bills and of other debt were almost offset by the banks' purchases of short-dated gilt-edged stocks.

As shown in Table H, the money stock rose by much the same amount – around 3% – as in the previous quarter, but domestic credit contracted as a result of the sales of gilt-edged stocks to the general public. As the external activities of the banks had little net effect in the first quarter, the external transactions of the central government accounted for the different behaviour of money stock and domestic credit. These movements are discussed more fully in the Commentary.

Table H
Domestic credit expansion and changes in the money stock

£ millions

Changes in period	Public sector borrowing				Bank assets included	
	Total public sector borrowing (= Cols. 2 to 5)	Sales + of debt to private sector (other than banks)	Currency in circulation with the public	External finance of public sector	Bank lending to public sector	Bank lending to private sector ^a
	1	2	3	4	5	6
Financial years						
1967/68	+ 1,961	+ 431	+ 106	+ 1,450	- 26	+ 685
1968/69	+ 458	- 142	+ 69	+ 422	+ 109	+ 507
1969/70	- 538	+ 776	+ 129	- 1,237	- 206	+ 591
1970/71	+ 878	+ 666	+ 291	- 1,254	+ 1,175	+ 1,069
Quarters (unadjusted)						
1969 Apr.—June	- 84	+ 80	- 4	- 58	- 102	+ 50
July—Sept.	+ 232	+ 284	- 50	+ 102	- 104	+ 110
Oct.—Dec.	+ 579	+ 235	+ 144	- 429	+ 629	+ 11
1970 Jan.—Mar.	- 1,265	+ 177	+ 39	- 852	- 629	+ 420
Apr.—June	+ 144	- 21	+ 42	- 145	+ 268	+ 653
July—Sept.	+ 271	- 196	+ 72	+ 69 ^c	+ 326 ^c	- 114
Oct.—Dec.	+ 862	+ 192	+ 168	- 448	+ 950	+ 120
1971 Jan.—Mar.	- 399	+ 691	+ 9	- 730	- 369	+ 410
Quarters (seasonally adjusted)^d						
1969 Apr.—June	- 201	+ 35	+ 2	- 4	- 234	- 21
July—Sept.	- 70	+ 231	+ 10	+ 26	- 337	+ 347
Oct.—Dec.	+ 80	+ 227	+ 107	- 531	+ 277	+ 48
1970 Jan.—Mar.	- 249	+ 271	+ 44	- 738	+ 174	+ 175
Apr.—June	+ 17	- 53	+ 34	- 85	+ 121	+ 581
July—Sept.	- 109	- 249	+ 107	- 7 ^c	+ 40 ^c	+ 123
Oct.—Dec.	+ 342	+ 183	+ 73	- 546	+ 632	+ 186
1971 Jan.—Mar.	+ 544	+ 785	+ 132	- 616	+ 243	+ 179

Money stock (M3)^e

Financial years	Total money stock (M3) ^e (= Cols. 13+14)	Currency in circulation with the public	Bank deposits of domestic sectors
	12	13	14
1967/68	+ 1,326	+ 106	+ 1,220
1968/69	+ 915	+ 69	+ 846
1969/70	+ 281	+ 129	+ 152
1970/71	+ 2,053	+ 291	+ 1,762
Quarters (unadjusted)			
1969 Apr.—June	- 18	- 4	- 14
July—Sept.	+ 244	- 50	+ 294
Oct.—Dec.	+ 615	+ 144	+ 471
1970 Jan.—Mar.	- 560	+ 39	- 599
Apr.—June	+ 855	+ 42	+ 813
July—Sept.	+ 345	+ 72	+ 273
Oct.—Dec.	+ 887	+ 168	+ 719
1971 Jan.—Mar.	- 34	+ 9	- 43
Quarters (seasonally adjusted)^d			
1969 Apr.—June	- 195	+ 2	- 197
July—Sept.	+ 216	+ 10	+ 206
Oct.—Dec.	+ 248	+ 107	+ 141
1970 Jan.—Mar.	+ 99	+ 44	+ 55
Apr.—June	+ 646	+ 34	+ 612
July—Sept.	+ 252	+ 107	+ 145
Oct.—Dec.	+ 516	+ 73	+ 443
1971 Jan.—Mar.	+ 565	+ 132	+ 433

^a Other than in foreign currency for investment abroad.

^b D.C.E. also equals columns 1-2+6+7.

^c These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

^d The adjustments are those used for the flow of funds matrix and are therefore based on calendar years. Because the seasonal pattern may change from year to year, the adjusted figures cannot be expected to add to the unadjusted totals over financial years, even apart from minor differences due to day-of-the-week effects (see note on page 188).

^e See Table 12 of the annex.

Table J

Flow of funds: quarterly figures

£ millions

Not seasonally adjusted

	Line	Public sector			Overseas sector ^a		
		1970		1971	1970		1971
		3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial surplus + /deficit -							
Saving	1	+ 916	+ 860				
Taxes on capital and capital transfers	2	- 41	- 63				
less:							
Gross fixed capital formation at home	3	-989	-1,070				
Increase in value of stocks and work in progress	4	- 58	- 24				
Financial surplus + /deficit -	5	-172	- 297				
Changes in financial assets and liabilities							
Assets: increase + /decrease -							
Liabilities: increase - /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	-128 ^b	- 220	+ 169			
Life assurance and pension funds	7						
Government loans	8	+ 26	+ 72		- 22	- 72	
Official financing of total currency flow	9 & 10	-202	+ 347	+ 973	+202	- 347	
Miscellaneous investment overseas (net)	11	+ 28	+ 85		+ 16	- 115	
Notes and coin	12	- 49	- 184	- 31			
Bank deposits	13	- 43	+ 61	+ 37	+303 ^b	+1,202	
Deposits with other financial institutions	14				- 11	- 8	
National savings	15-1	+ 26	- 27	- 112			
Tax reserve certificates	15-2	- 38	- 45	+ 82			
Import deposits	15-3	+ 80	+ 123	+ 173	- 10	- 15	
Bank lending	16	+ 36	- 90	- 11	-272	- 913	
Hire purchase debt	17					-186	
Loans for house purchase	18	+ 18	+ 27				
Other loans and accruals	19	+160	+ 87				
Marketable government debt:							
Treasury bills	20	-139 ^b	- 609	+ 893	-100 ^b	+ 10	
Stocks	21	+272	+ 19	-1,248	- 10	- 14	
Local authority debt	22	- 76	- 114		- 13	- 33	
U.K. company and overseas securities:							
Capital issues	23				+ 12	+ 2	
Other transactions	24				- 53	- 41	
Unit trust units	25					+ 7	
Identified financial transactions	26	- 29	- 468		+ 42	- 344	
<i>Unidentified</i>	27	-143	+ 171		- 83	+ 127	
Total = financial surplus + /deficit -	28	-172	- 297		- 41	- 217	

— nil or less than £½ million.

a It has not been possible to incorporate in this table the revised balance of payments estimates released in June.

b These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1970		1971	1970		1971	1970		1971	1970		1971	
3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	
+677	+605		+825	+1,101		+156	+206					1
-81	-80		+124	+147		-2	-4					2
-308	-271		-786	-860		-111	-150					3
-37	-74		-253	-272		-	-					4
+251	+180		-90	+116		+43	+52					5
						1970		1971	1970		1971	
						3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	
+410	+445		-5	-1		+128 ^b	+220	-169	-410	-445		6
									+1	+1		7
												8
			-10	+78					-34	-48		9 & 10
												11
+33	+39	+50	+39	+129	-41	-23	+16	+22	+64	+53	-96	12
+235	+340	+126	+17	+265	-110	-576 ^b	-1,921	-349	+448	-486		13
+449	+494		+10	-								14
-26	+27	+112										15-1
+8	+21	-23	+18	+22	-30	+11	-	-29	+1	+2	-	15-2
			-70	-108	-156							15-3
+3	+23	-26	+49	-183	-378	+189	+1,167	+650	-5	-4	-49	16
-4	-64		-8	+61					+12	+3		17
-342	-340					+20	+10	+10	+304	+303		18
-18	+53		-216	-149		+124	-122	+121	-50	+131		19
			+9	+6		+244	+589	-935	-14	+4		20
-272	-55					-94	-31	+404	+104	+81		21
-68	+18		-22	-28		+93	+67	+331	+86	+90		22
			-38	-88	-72	-	-	-1	-9	-5	-32	23
-229	-240		+145	+102		-7	+41	+58	+179	+229		24
+19	+11	+10							-19	-11	-10	25
+198	+772		-82	+106		+109	+36	+113	-238	-102		26
						+172		+118				27
+53	-592		-8	+10								
+251	+180		-90	+116								28

Table K

Flow of funds: annual figures

£ millions

	Line	Public sector			Overseas sector ^a		
		1968	1969	1970	1968	1969	1970
Financial surplus + /deficit —							
Saving	1	+ 3,006	+ 4,181	+ 4,983			
Taxes on capital and capital transfers	2	— 189	— 145	— 67			
<i>less:</i>							
Gross fixed capital formation at home	3	— 3,792	— 3,714	— 4,004			
Increase in value of stocks and work in progress	4	— 56	— 14	— 93			
Financial surplus + /deficit —	5	— 1,031	+ 308	+ 819	+ 306	— 437	— 631
Changes in financial assets and liabilities							
Assets: increase + /decrease —							
Liabilities: increase — /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 128	+ 128	— 276 ^b			
Life assurance and pension funds	7						
Government loans	8	+ 41	+ 65	+ 202	— 6	— 48	— 179
Official financing of total currency flow	9 & 10	— 1,410	+ 743	+ 1,287	+ 1,410	— 743	— 1,287
Miscellaneous investment overseas (net)	11	+ 201	— 20	+ 117	— 416	— 95	— 16
Notes and coin	12	— 186	— 197	— 231			
Bank deposits	13	— 33	+ 67	+ 44	+ 2,626	+ 4,723	+ 3,394 ^b
Deposits with other financial institutions	14				— 104	— 2	+ 14
National savings	15-1	+ 93	+ 224	+ 43			
Tax reserve certificates	15-2	— 21	+ 27	+ 18			
Import deposits	15-3	— 77	— 468	+ 257	+ 1	+ 59	— 32
Bank lending	16	+ 48	+ 25	— 124	— 2,854	— 4,859	— 2,595
Hire purchase debt	17	+ 7	+ 3	— 1			
Loans for house purchase	18	+ 23	— 14	+ 57			
Other loans and accruals	19	+ 212	+ 161	+ 114			
Marketable government debt:							
Treasury bills	20	+ 224	+ 386	— 545 ^b	— 66	— 121	— 9 ^b
Stocks	21	+ 504	— 183	+ 266	— 11	+ 165	+ 25
Local authority debt	22	— 584	— 601	— 547	— 57	+ 29	— 38
U.K. company and overseas securities:							
Capital issues	23				+ 44	+ 8	+ 12
Other transactions	24	+ 56	+ 13	+ 7	— 167	+ 126	— 77
Unit trust units	25						
Identified financial transactions	26	— 1,030	+ 359	+ 688	+ 400	— 758	— 788
<i>Unidentified</i>	27	— 1	— 51	+ 131	— 94	+ 321	+ 157
Total = financial surplus + /deficit —	28	— 1,031	+ 308	+ 819	+ 306	— 437	— 631

— nil or less than £½ million.

^a It has not been possible to incorporate in this table the revised balance of payments estimates released in June.^b These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1968	1969	1970	1968	1969	1970	1968	1969	1970	1968	1969	1970	
+2,232	+2,474	+2,879	+2,964	+2,959	+2,762	+226	+200	+319				1
- 231	- 387	- 356	+ 427	+ 571	+ 492	- 7	- 39	- 69				2
-1,174	-1,041	-1,111	-2,563	-2,795	-3,132	-368	-474	-495				3
- 136	- 157	- 210	- 652	-1,033	-1,099	-	-	-				4
+ 691	+ 889	+1,202	+ 176	- 298	- 977	-149	-313	-245				5
						1968	1969	1970	1968	1969	1970	
+1,523	+1,535	+1,675				+ 128	- 128	+ 276 ^b	-1,523	-1,535	-1,675	6
- 1	- 3	-	- 37	- 17	- 24				+ 3	+ 3	+ 1	7
												8
			+ 186	+ 133	- 38				+ 29	- 18	- 63	9 & 10
												11
+ 72	+ 73	+ 115	- 20	+ 73	+ 206	+ 134	+ 51	- 90				12
+ 682	+ 308	+ 822	+ 305	- 241	+ 120	-3,649	-5,031	-4,600 ^b	+ 69	+ 174	+ 220	13
+ 930	+ 999	+1,627	+ 25	+ 59	- 3				- 851	-1,056	-1,638	14
- 93	- 224	- 43	- 20	- 28	- 7							15-1
+ 54	- 11	+ 1	+ 76	+ 409	- 225	- 8	+ 14	- 21	- 5	- 2	+ 9	15-2
												15-3
- 38	+ 77	- 59	- 523	- 615	-1,066	+3,410	+5,352	+3,925	- 43	+ 20	- 81	16
- 22	+ 25	- 49	+ 5	- 7	+ 3				+ 10	- 21	+ 47	17
- 979	- 846	-1,169				+ 25	- 5	+ 40	+ 931	+ 865	+1,072	18
- 13	- 90	- 17	- 299	- 244	- 351	-	- 5	+ 1	+ 100	+ 178	+ 253	19
- 259	+ 76	- 206	- 38	- 12	+ 10	- 111	- 251	+ 550	- 9	- 2	- 6	20
+ 247	+ 220	- 60	- 32	- 84	- 119	- 283	- 341	- 408	+ 49	+ 283	+ 323	21
						+ 261	+ 320	+ 483	+ 165	+ 116	+ 281	22
- 743	- 587	- 950	- 482	- 512	- 193	- 24	- 12	- 27	- 132	- 95	- 56	23
+ 258	+ 186	+ 89	+ 360	+ 379	+ 400	+ 95	+ 46	+ 93	+ 993	+ 634	+ 791	24
									- 258	- 186	- 89	25
+1,618	+1,738	+1,776	- 494	- 707	-1,287	- 22	+ 10	+ 222	- 472	- 642	- 611	26
- 927	- 849	- 574	+ 670	+ 409	+ 310				+ 345	+ 319	+ 144	27
+ 691	+ 889	+1,202	+ 176	- 298	- 977				-149	-313	-245	28

Notes on sources, definitions and seasonal adjustments

Sources

The main statistical series used in compiling Tables J and K appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics* and *Economic Trends*.

Definitions (line numbers refer to Tables J and K)

Public sector

- (i) Central government, including the National Insurance Funds, the Exchange Equalisation Account, the National Savings Bank Fund and the Issue Department (but not the Banking Department) of the Bank of England.
- (ii) Local authorities including such local bodies as water boards, harbour boards and passenger transport authorities.
- (iii) Nationalised industries and other public corporations.

Overseas sector Non-residents as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1970*, H.M.S.O., September 1970).

Persons (or personal sector) Individuals, unincorporated businesses, charities and private trusts, private non-profit-making bodies serving persons and private trusts.

Industrial and commercial companies All corporate bodies other than public corporations, banks and other financial institutions.

Banking sector As in Table 8 of the annex.

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, finance houses, National Savings Bank (investment account only), special investment departments of trustee savings banks, authorised unit trusts, property unit trusts, special finance agencies (e.g. the Agricultural Mortgage Corporation) and certain other institutions which accept deposits but which are not included in the banking sector.

Line 1 Saving The surplus of current income over current expenditure before providing for depreciation and stock appreciation. It includes additions to tax, dividend and interest reserves.

Line 5 Financial surplus/deficit The financial surplus (deficit) of a domestic sector measures the excess (shortfall) of its saving and net receipts of capital transfers over its capital expenditure at home on fixed assets and on stocks and work in progress. For the overseas sector a financial surplus is the counterpart of a deficit on current account in the U.K. balance of payments, and equals net overseas investment in the United Kingdom. An overseas sector deficit represents a U.K. current account surplus and hence net U.K. investment abroad. For all sectors combined, financial surpluses/deficits should add to nil, but in practice they do not, because of the

discrepancy between estimates of total saving and total investment (the residual error in the national income accounts).

Line 6 Net indebtedness of Government to Bank of England, Banking Department The Banking Department's holdings of government debt and of notes and coin – regarded here as government liabilities – less the deposits of the National Loans Fund and the Paymaster General with the Bank.

Line 7 Life assurance and pension funds The increase in persons' net claims in respect of these funds. Figures are included for public sector pension schemes where separate pension funds are not maintained.

Line 8 Government loans Lending (net of repayments) to building societies, industrial companies, etc.; and intergovernment loans (net). Loans to housing associations are in line 18.

Lines 9 and 10 Official financing of total currency flow Changes in the sterling equivalent of gold, foreign currencies and Special Drawing Rights held by the Exchange Equalisation Account other than those which arise from a gold subscription by the United Kingdom to the I.M.F. or from allocations of Special Drawing Rights; in official liabilities in foreign currencies arising from drawings on central bank facilities; in overseas holdings of Treasury bills which are the sterling counterpart of inter-central bank swap transactions; and in the net repurchase liability of the United Kingdom to the I.M.F., other than those arising from changes in the sterling equivalent of the United Kingdom's subscription to the I.M.F.

Line 11 Miscellaneous investment overseas (net) Those parts of the balance of payments items classified as *investment and other capital flows* which are not elsewhere included: U.K. official long-term capital other than intergovernment loans; public corporations borrowing abroad by market issues and from banks; private investment (inward and outward) other than portfolio investment and the share and loan element of direct and oil investment (which are entered in lines 23 and 24); identified import credit, suppliers' credit on exports and that part of export credit extended by U.K. banks which is refinanced by the Issue Department of the Bank of England; the overseas transactions of some institutions which contribute to the statistics of external sterling liabilities and claims but which are not included in the financial sectors; and part of other short-term flows.

Line 12 Notes and coin Changes in Bank of England notes – treated here as liabilities of the public sector – in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin. Changes in holdings outside the banking sector have been arbitrarily divided between persons and industrial and commercial companies, but some allowance has been made for movements brought about by the different days of the week on which the periods end.

Line 13 Bank deposits Changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies.

The entries for the banking sector are changes in net deposits *i.e.* current and deposit accounts after allowing for transit items (see the additional notes to Table 8 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items. Changes in negotiable dollar certificates of deposit held outside the banking sector and changes in negotiable sterling certificates, as reported in the external banking and money market liabilities in sterling series, are attributed to non-residents; changes in other holdings of sterling certificates are attributed to residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks as agents; because of this, the figures in this table will differ from changes derived from Table 8 (2) of the annex.

Line 14 Deposits with other financial institutions Shares and deposits with building societies, deposits in National Savings Bank investment account, deposits with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with some other institutions.

Line 15.1 National savings All forms of national savings (including accrued interest) other than deposits in National Savings Bank investment account and with special investment departments of trustee savings banks (included in line 14).

Line 15.3 Import deposits Entries for the overseas sector relate to deposits made directly to H.M. Customs by overseas residents on behalf of U.K. companies.

Line 16 Bank lending The banks' advances and overdrafts, money at call and short notice other than to U.K. banks (excluding tax reserve certificates), and transactions in commercial bills, excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22). The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex). The overseas sector figures for call money and commercial bills are taken from returns made by the banks; the figures for commercial bills for other financial institutions from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies; the division of the residual call money figures between persons and industrial and commercial companies has been roughly estimated.

Line 17 Hire purchase debt Changes in hire purchase and other instalment credit extended by finance houses, household goods shops (including nationalised gas and electricity undertakings in the public sector as well as companies) and other retailers. Entries relate to capital sums only; unearned finance charges are excluded.

Line 18 Loans for house purchase New loans, less repayments, by building societies, insurance companies, pension funds and local authorities; estimated changes in bank lending; and loans to housing associations by the Government and by public corporations.

Line 19 Other loans and accruals Loans between domestic sectors not elsewhere included. The most important of these are by other financial institutions to persons and industrial and commercial companies. The entries also include net trade credit given or received by public corporations, borrowing by the Northern Ireland Government and the difference between accruals of local authority rates, purchase tax and interest charges (the basis on which these items are entered in the national income accounts) and the corresponding cash payments.

Lines 20 and 21 Marketable government debt As defined in the additional notes to Table 3(1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The changes in overseas holdings of Treasury bills exclude the sterling counterpart of inter-central bank swap transactions. The entries for stocks under public sector consist of net sales by the central government less purchases by public corporations and local authorities. The entries for stocks under persons are residuals and include any transactions by industrial and commercial companies and unidentified overseas transactions.

Line 22 Local authority debt Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts and excluding lending by public corporations. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals.

Lines 23 and 24 U.K. company and overseas securities:

Capital issues Excludes international issues (see Table 15 of the annex) and issues abroad.

Other transactions For the overseas sector the entries comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities; they are taken from the balance of payments estimates for private investment. The entries for the banking sector are the change in the banks' securities other than government stocks and local authority securities. The figures for other financial institutions are taken from their statistical returns; beginning with 1968, commissions and other costs paid by the institutions have been deducted from their transactions. The estimates for industrial and commercial companies relate to their cash payments for the acquisition of subsidiaries and of unincorporated businesses; to their purchases of trade investments; to their acquisition of share and loan capital in overseas companies (part of direct investment abroad); and to their capital issues in overseas centres.

The entries for persons are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

Line 25 Unit trust units Net sales of units to persons by authorised unit trusts.

Line 27 Unidentified The net total for all sectors together corresponds to the residual error in the national income accounts referred to in the note on line 5. The entry for the overseas sector is the counterpart of the balancing item in the balance of payments accounts. Figures for individual sectors reflect deficiencies in the sector division both of the national income accounts and of the estimates of financial transactions.

Seasonal adjustments

Financial series are peculiarly difficult to adjust satisfactorily, for two main reasons; firstly, there tend to be large erratic movements between a sector's holdings of one asset and of another, which obscure the trends; and secondly, the 'seasonal' patterns can so easily be changed by administrative action (for example tax changes). This contrasts with other economic series, whose seasonal variation is more a function of weather and social custom. Moreover, for most items in the United Kingdom flow of funds accounts figures are available from 1963 onwards, though

estimates of the net financial surpluses of certain sectors are available for a much longer run of years.

Preliminary adjustments have been obtained independently for each item which displays seasonality. Consistent seasonal adjustments have then been estimated simultaneously for all the entries in the accounts by a system of balancing which provides that:

- (i) the sum of the adjustments for each item over the four quarters of each calendar year is zero;
- (ii) in any quarter, the sum of the adjustments of all sectors for a particular asset/liability is zero; and
- (iii) in any quarter, the sum of the adjustments for the identified assets/liabilities of a particular sector is related, where possible, to the adjustment for the sector's financial surplus.

In addition, certain series (for example notes and coin) are markedly affected by the days of the week on which a quarter begins and ends, and – at end-March – by the closeness of Easter. Adjustments have been made to allow for these distortions also; but, of course, they will not usually cancel out over the year, because this must end on a different day of the week from the preceding year.